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# East Asian Journal

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6 January 1982

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*EA EAJ 82-001*  
*6 January 1982*

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## 1 China's Cultural Imbroglio

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Conservatives in the party and the Army have won out over their liberal counterparts as the party adopted a tough, new stance on cultural policy. (C)

## 5 China: Correcting the Course in Economic Policy

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Recent decisions by the leadership have reaffirmed the consumer-oriented policies of the past three years and reflect a heightened appreciation of the complexity of China's economic problems.

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Weakening demand for its exports and an overvalued currency are at the root of a faltering South Korean economy that had performed very well in 1981.

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## Calendar of Coming Events

*Comments and queries regarding this publication may be directed to the Chief of Production, Office of East Asian Analysis.*

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## China's Cultural Imbroglio

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After a year of wrangling, party leaders have agreed on a tough, new stance on cultural policy—one that writers and artists seem determined to resist. In attempting to develop an acceptable and effective policy, party leaders Deng Xiaoping and Hu Yaobang have been caught between the demands of two key constituencies: liberals who seek a moderate policy permitting greater freedom of expression, and party and Army conservatives who argue for strict limits on the arts.

**The Attack on Writers**

The party tightened its guidelines on the arts following the December 1980 Work Conference, where conservative leaders lashed out at writers who had openly disputed the basic tenets of party rule during the fall. Military leaders, including General Political Department Director Wei Guoqing, were incensed at writers like Nanjing's Gu Ertan, who had urged writers not to be afraid to question socialism and who had called for an end to party interference in the arts. At the conference, Deng warned writers that questioning the party's policies and actions would no longer be permitted.

The military, supported by party conservatives, took the lead in the postconference campaign to silence outspoken critics. In late April, the *Liberation Army Daily (LAD)* published a scathing critique of author Bai Hua and his filmscript "Bitter Love." The *LAD* attacked the film for its lack of patriotism, its implied criticism of Mao, and its indictment of the party for the widespread suffering of intellectuals during the Cultural Revolution.

Stunned by the *LAD* attack, which had been approved in principle by Deng but had not been cleared with the party's propaganda department where many opposed it, the party's cultural and propaganda apparatus firmly supported dissenting writers.

**Deng's Predicament**

The battle between these two groups has continued unabated since the December 1980 Work Conference. Deng Xiaoping, who has sought to reconcile the demands of Army and party conservatives for a tougher stance in culture with his earlier promises to intellectuals of relative freedom of expression, remains in a difficult position. He needs the support of both groups to advance his economic and political reform program. Thus, Deng has permitted criticism of some writers but has sought to restrain their more zealous critics, stressing the importance of correct "method" in dealing with errant writers. He approved the PLA's decision to criticize "Bitter Love" after viewing the film himself, but rebuked the Army for the intemperance of the *LAD* article.

Although Deng has sought to assure intellectuals, who were frightened and angered by the PLA's attack, that the party will not abandon its earlier commitments to them, he is clearly upset about their refusal to abide by party strictures. Deng is concerned most of all that infighting between liberals and conservatives not interfere with the difficult policy compromises that he has crafted since December 1980. He is also concerned that the actions of writers will reflect badly on Party Chairman Hu Yaobang, who has been the leadership's spokesman on cultural affairs and who is already regarded with suspicion by the military. Moreover, Deng and other party leaders are aware that the controversies of the spring, replete with lurid reports in the Hong Kong press of feuding among party leaders, project an image of political instability to the world.

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Initial efforts to secure compliance with the December line and to put an end to the bickering between liberals and conservatives failed. After the Sixth Plenum in June 1981, Deng once again took up the issue; he rebuked military critics but reserved his strongest language for liberals. In his speech, Deng directed some of his harshest comments at writers who despite party membership have pilloried the leadership. According to the leftist Hong Kong press, he singled out Ye Wenfu, whose poem "General, You Must Not Do This" greatly angered military leaders. Deng also criticized another poem in which Ye portrayed Chairman Mao meeting Hitler in the underworld. Hitler shook Mao's hand and patted him on the shoulder, telling him, "You did a good job."

#### A Modicum of Compliance

Since the August conference, top leaders have stepped up efforts to bring about closer compliance to the new line throughout the party. In Beijing, Dengist party theoretician Hu Qiaomu castigated Bai Hua for soliciting the support of intellectuals for "Bitter Love" the previous spring. Senior cultural figures identified with the liberals, including Zhou Yang and Acting Minister of Culture Zhou Weizhi, made self-criticisms at an early September forum, and provincial leaders who had resisted the new line in the spring prominently endorsed it this fall.

Most important, the *People's Daily* acknowledged in an editorial published on 18 August that it too had erred in supporting liberals last spring; the literary *Wenyi Bao* did the same in early October. *Wenyi Bao* criticized "Bitter Love" for its deleterious "social impact"; the journal claimed that "Bitter Love" contributed to youthful nihilism and the "doubt everything, negate everything" methods of the Cultural Revolution.

These efforts have muffled but have not ended the debate. Liberals, in particular, continue to resist the new line, albeit not as openly as in the spring. They have been able to marshal the quiet support of some provincial party first secretaries, including Guangdong's Ren Zhongyi, who has told party cadre that he is opposed to the new policy. Moreover, Hu Qiaomu, in a speech that has appeared recently in *Hong Qi*, the party's theoretical journal, upheld the new line but criticized some aspects of Mao's "Talks at the Yanan Forum on Art and Literature," which conservatives regard as the cornerstone of orthodox cultural policy.

Conservatives, too, have resumed their attacks on writers. Despite Deng's injunction to exercise tact in criticizing writers, the *LAD* continued to employ virtriotic and inflammatory language, accusing Ye Wenfu of launching "screaming bayonet attacks" on China and declaring that his work was "unbridled calumny" of the socialist system. Moreover, conservatives have challenged party theoretician Hu Qiaomu's assertion that Mao's literary policy was badly flawed. Army cultural czar Liu Baiyu declared at a literary forum held days before Hu gave his speech last August that Mao's "Talks at the Yanan Forum" were entirely correct. More recently, party leaders in Zhejiang Province have disputed Hu's contention that literature should not be subordinate to politics.

#### Outlook

In contrast to the past three years, when the toughness of party policy toward intellectuals waxed and waned in a cyclical manner, the top leadership now seems united on the need to draw the boundaries defining orthodoxy much more tightly and to hold to them. Party leaders have indicated that writers, particularly those who are party members, will be disciplined if they do not adhere to the more orthodox notion of "upholding the four basic principles," that is, no questioning of socialism or the leadership of the party. Recent articles in the national press demonstrate that the party dictum of "emancipating the mind," cited by liberals in support of their positions, is now limited to economic problem solving.

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The vehemence of liberal resistance continues to surprise party leaders. Writers like Bai Hua, Liu Binyan, Wang Meng, and others have served notice that they will not back down in a confrontation with their critics and that they will resist policies that threaten their new freedoms. Moreover, the support for liberal policies among some propaganda officials and provincial leaders also suggests that the writers will continue to press their case. [REDACTED]

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Continued controversy further complicates Deng's relations with party conservatives and provides his opponents, particularly those in the military, with grounds to attack his unorthodox economic policies as well as his personnel choices. [REDACTED]

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Despite the efforts of Deng, Hu, and other top leaders, cultural policy will remain a source of contention in the party and in Chinese society. Whereas senior leaders have reached an agreement on the need for a tougher stance toward intellectuals, opinion remains deeply divided at the middle and lower levels of the party. The skirmishes of the last year, moreover, have heightened the tension that has always existed between liberals and conservatives in the bureaucracy. Party leaders are justifiably concerned, too, that fractious disputes over cultural policy could mar or even delay important meetings set for this year, such as the 12th Party Congress, and complicate efforts to reach compromises on other issues. [REDACTED]

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## China: Correcting the Course in Economic Policy [REDACTED]

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As a prelude to 1982, the Chinese leadership has reaffirmed the consumer-oriented policies of the past three years and has ordered slight adjustments to deal with current economic difficulties. At the December sessions of the National People's Congress, the leadership rejected arguments for further reductions in investment and resisted pressures for significantly raising the priority of heavy industry. For the time being, Beijing appears willing to accept another budget deficit this year and an uncomfortably high rate of inflation as part of the price that must be paid for continuing the economic readjustment. Further, the leadership now seems to be following consensual policies that recognize the complexity of economic problems and reject the dramatic, single-solution approaches that have marked Chinese economic policy for most of the past three decades. [REDACTED]

### Beijing Reviews Its Problems

The decision to continue current economic policies with only minor adjustments came after a series of national conferences in late 1981 in which a number of government actions came under fire. Conferees generally supported consumer-oriented programs as well as the fight to end inflationary deficit spending. But a sizable minority, perhaps even a majority, criticized the massive investment cuts (adopted earlier in the year to close the growing budget gap) as too harsh and misguided. Some funds were subsequently restored, but the 30-percent reduction in investment spending sent shock waves through the economy. In practical terms the cuts meant drastic reductions in planned output from factories producing investment goods. [REDACTED]

Beijing used the cutbacks to discipline inefficient enterprises. Plant managers were told that if they wanted to maintain production levels they themselves must find customers for production in excess of (greatly lowered) state plans. Many managers did so by shifting product lines to consumer durables, for

example, and by improving existing products or reducing prices. Others were less successful and had to trim production, idling machines and workers. Production was further depressed by the confusion caused by the lack of detailed guidance. Because Beijing was late in passing along production plans, many plant managers waited far into the year to make the required adjustments. [REDACTED]

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Managers resorted to tactics common within the "socialist" system whenever quotas to expand or maintain output, profits, and worker incomes become difficult to meet. Production leaders allowed quality to slip, surreptitiously shifted production to other goods when higher profits could be earned, and overlooked or illegally padded costs. [REDACTED]

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Other problems cropped up as a result of the unexpectedly sharp downturn in heavy industry. Because nearly half of the state's total budget receipts come from heavy industry, the slowdown there resulted in a larger-than-anticipated decline in revenues. Increasingly, Beijing had to shift its attention away from the larger issues such as energy and the Sixth Five-Year Plan to deal with these short-term, tactical problems. [REDACTED]

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By the end of September, as the decline in heavy industry continued, policy discussions became more intense. Three general lines of argument became apparent:

- **Further Investment Cuts.** Some in the leadership argued that, because the investment program was still too large, further cuts were necessary to reduce the budget deficit and counteract strong inflationary pressures.

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- Increased Investment Spending. In contrast, proponents of a high-investment, heavy-industry policy maintained that the earlier cuts were too severe and the planned shift in investment away from heavy industry had damaged growth prospects. Investment, particularly in producer goods industries, should be increased.
- Slight Adjustments, No Major Initiatives. Many retained a belief that existing policies were essentially correct but did require adjustments. [ ]

### Zhao's Report to the NPC

The third approach prevailed and was reflected in Premier Zhao Ziyang's work report to the congress. He acknowledged difficulties but described them as only temporary and cautioned against two erroneous tendencies: pessimism about prospects for the modernization program and unrealistic expectations of quick results. Zhao's guidelines for economic work essentially reaffirmed Beijing's proconsumer policies with their emphasis on agricultural development, light industry, housing, and higher incomes for workers and peasants. But Zhao also introduced significant new elements:

- Investment spending will be raised, but most of the increase will go for new and better machinery and equipment for existing enterprises. To help carry this out, the state will raise depreciation rates for fixed assets and further centralize control of investment funds.
- To make better use of raw materials, energy, capital, and labor, Beijing will send out inspection groups to examine enterprise management systems and practices. Enterprises failing to meet new standards for productivity, consumption of raw materials, and quality control within a given time period, will be forced to suspend operations temporarily or close down altogether. [ ]

In his speech, Zhao also made it clear that Beijing intends to continue to pursue economic reform, but in a cautious way that would cause minimal economic disruption. Nevertheless, he also announced a policy that potentially could be very disruptive. Zhao said that because the State Council was determined to

### China: Economic Growth

Percent

	1980	1981	1982 Plan
National income <sup>a</sup>	8.2	3	4
Industry (gross value) <sup>b</sup>	8.7	3	4
Light	18.4	12	
Heavy	1.4	5	
Agriculture (gross value) <sup>b</sup>	2.7	4	4

<sup>a</sup> In current prices.

<sup>b</sup> In constant prices.

remedy the intolerably low efficiency resulting from an overlapping and overstaffed bureaucracy, it had decided to restructure and streamline the government, beginning with the departments directly under the Council itself. [ ]

### The Economy in 1981-82

Zhao pointed to a number of economic gains in 1981:

- Despite severe flooding and drought, agriculture did well. The grain crop, up by 7.5-10 million tons according to preliminary estimates, may reach 328 million tons—China's second largest.
- The budget deficit was reduced from 12.7 billion yuan in 1980 to 2.7 billion yuan.
- Growth in worker and peasant incomes continued at near double-digit rates, as did retail sales.
- Preliminary data indicate a foreign trade surplus that may exceed \$1 billion. By August, a growing surplus had already boosted China's foreign exchange reserves to a record \$4.9 billion, almost double holdings at the end of 1980. [ ]

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Still, Zhao's warning about unrealistic expectations reflects the leadership's considerable disappointment with economic performance in 1981:

- The planned decline in heavy industrial production hampered efforts to eliminate the budget deficit and to reduce unemployment.
- Aggravated by absenteeism and lax work habits, productivity showed little or no gain.
- For much of industry, product quality declined as raw-material consumption and unit costs rose.
- The rate of inflation, although falling, remained uncomfortably high at around 10 percent. [ ]

Beijing's relatively quick response to its difficulties should yield dividends in 1982. Heavy industry, in particular, should cease being the major problem that it was last year and resume a steady but low rate of growth. This may, however, create other problems. Energy shortages were less noticeable in 1981 largely because heavy industrial production was down. This year, as heavy industry resumes growth, Beijing probably will face worsening energy allocation problems. [ ]

Consumer issues will also be a major concern for Beijing. During 1979-81, budgetary spending on various consumer-related programs totaled 92.5 billion yuan, or 54 percent more than the planned total of 60 billion yuan. One way to trim spending in these areas is to reduce consumer subsidies by raising retail prices, and in November, just before the NPC opened, the government announced price hikes for high quality tobacco and alcohol products. This action generated widespread rumors of further hikes and resulted in panic buying of such staples as grain and cotton cloth. Chinese officials have denied that there will be further price hikes, and panic buying seems to have subsided. If subsidies continue to threaten budgetary balance, however, Beijing may be tempted to try another round of price hikes. [ ]

In similar fashion, work bonuses have surged during the last two years, whereas labor productivity has grown very little. In November, Beijing issued new guidelines aimed at restricting the size of bonuses and linking them more directly to work effort. The measures required to do this—higher work quotas with penalties for nonfulfillment—may cause additional tensions between workers and management, perhaps giving rise to more overt forms of worker unrest. [ ]

The slow-growth scenario Zhao sketched leaves Beijing with little cushion against exigencies. Restructuring the economy is more difficult during a period of slow growth because of intense competition for the few additional resources becoming available each year. Plans to generate growth by more efficient use of resources also place a high premium on efficient management—an extremely scarce resource in China. [ ]

The Chinese have made considerable progress since 1976 putting into place a bureaucracy that increasingly can make and implement informed economic policies. But as 1981 showed once again, the scope of the task they face and their inability to predict the impact of policy initiatives mean that it will take several more years before the economy is capable of sustained rapid growth. Zhao says this will occur no sooner than the 1990s, and there seems little reason to challenge that assessment. [ ]

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## South Korea: Economic Recovery Stalling

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Following a strong showing in the first three quarters of 1981, the South Korean economy is slumping at an inopportune time for the Chun government. Export growth, which had fueled recovery, is faltering as a result of weakening demand in the developed countries and an overvalued South Korean currency. The dimming economic outlook coincides with rising student-government tensions and increasing dissatisfaction with Chun among intellectuals and religious groups. Continuing weak economic performance in 1982 could intensify public criticism of the government.

### Economic Readjustment

South Korea is going through a difficult adjustment period stemming from overstimulation of the economy during the late 1970s. By 1978, expansionary government policies and a headlong rush into heavy industry had created serious bottlenecks and an acceleration in inflation. The result was a serious erosion in competitiveness. The loss in export strength, combined with government stabilization policies introduced in April 1979 and the runup in oil prices, brought the fast-growing Korean economy to a halt in mid-1979. In 1980 the economy plummeted; real GNP declined 6.2 percent while wholesale prices increased 39 percent. A disastrous agricultural performance and the disruptions caused by the political transition after Pak's assassination exacerbated the slump.

Realizing that the unchecked expansionary policies during the mid-1970s were largely responsible for the country's economic difficulties during 1979-80, Seoul has maintained more restrictive policies over the past two years. The government put top priority on slowing inflation while aiming for moderate GNP growth, a gradual reduction in unemployment, and a manageable current account deficit. The growth in the money supply was reduced from 16 percent in 1980 to 3 percent in 1981, and depreciation of the won relative

### South Korea: Economic Performance in 1981

*Export volume increased 18 percent*

- Advance was broad based, led by ships, machinery, textiles
- Most success was in LDC markets, especially Africa and South America

*Private consumption rose 4 percent*

- Increased employment offset decline in real wages
- Consumers spent more on electrical appliances while cutting back on food

*Private investment declined 5 percent*

- Capacity utilization remained low
- Business confidence failed to recover

*Inflation declined to 23 percent*

- Import price increases slowed
- Wage increases moderated
- Money supply growth slowed

*Unemployment fell to 4.8 percent*

- Export-oriented firms increased payrolls most

*Current account deficit declined to \$5.1 billion*

- Trade deficit narrowed while services deficit rose

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to the dollar was held to 6 percent. Seoul kept a fairly tight grip on fiscal expenditures although the government deficit widened because of lagging revenues.

The government put tight controls on prices charged by monopolistic firms and, through an extensive education and jawboning campaign, reduced the growth in wages to about 20 percent in 1981.

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### Getting Back on Track

Backed by the government's austere policies and benefiting from an aggressive overseas sales effort, the South Korean economy began to pick up in late 1980 and registered a stronger-than-expected performance in 1981. Real GNP increased an estimated 7 percent and unemployment fell slightly to 4.8 percent. Even more encouraging, inflation declined to 23 percent.

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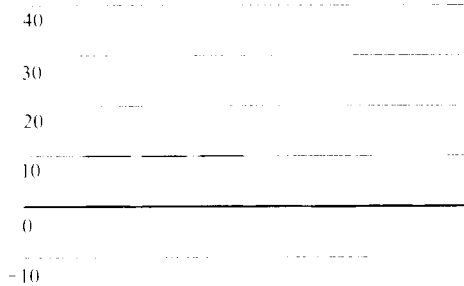
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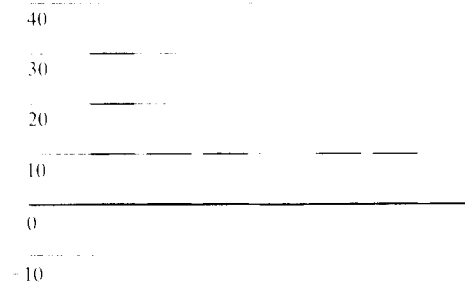
## South Korea: Economic Indicators

Percent

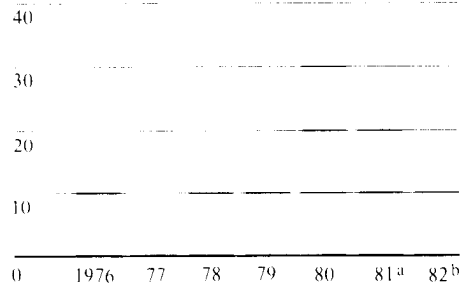
Real GNP Growth



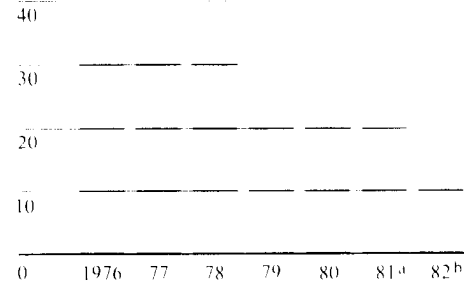
Export Volume Growth



Wholesale Price Inflation

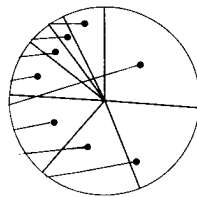


Nominal Wage Growth



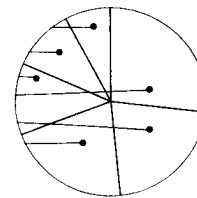
Export Markets, 1980

Other 7.1  
 Latin America 2.8  
 Africa 4.3  
 Middle East 9.7  
 United States 26.3  
 Asian LDCs 14.7  
 Japan 17.4  
 Western Europe 17.7



Export Commodities, 1980

Non-Manufacturers 7.7  
 Electronics 10.7  
 Iron and Steel 12.3  
 Textiles 26.9  
 Other Light Manufacturers 21.5  
 Other Heavy Manufacturers 20.9



<sup>a</sup>Estimate.  
<sup>b</sup>Projected.

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An extremely strong export sector was the leading edge of this recovery. A 27-percent depreciation of the won in 1980 enabled Seoul to regain markets lost to its East Asian competitors in 1978-80. Private consumption, on the strength of increased employment levels, provided an additional, albeit moderate, boost to the economy. Private investment, however, remained depressed. Capacity utilization stayed below levels needed to encourage spending on new facilities and business confidence failed to recover. [ ]

### Outlook for 1982

Seoul had envisioned a continued strengthening of the economy in 1982. Strong export growth was expected to boost capacity rates and stimulate investment while the government maintained its tight rein on the money supply and spending. The end result, according to Seoul's projections, was to have been real GNP growth of 8 percent. [ ]

In recent weeks, however, the government has come to realize that the growth projections for 1982 are unattainable, and its statements have become more cautious. The South Korean economy has weakened in the past three months and prospects for any real improvement in the first half of 1982 are dim. For the year, real GNP growth will probably fall to about 5 percent with almost all the growth coming in the second half of the year; economic activity will be especially weak during the first quarter. Inflation will drop below 15 percent, provided the government maintains its austerity program. [ ]

### The Factors at Play

The US economic slowdown will contribute to sharply reduced export growth in early 1982; the United States accounts for 26 percent of South Korean exports. The pace of South Korean overseas shipments began to slip in August and letters of credit have fallen sharply in recent months. The Chun government's policy of keeping the won closely tied to the appreciating dollar in 1981 has compounded the problem by reducing the competitiveness of South Korean products. On a trade-weighted, price-adjusted basis, South Korea's exchange rate appreciated 14 percent between January and August. [ ]

Prospects for sales in developed-country markets over the next six months are especially poor. Demand for manufactured goods is slowing in the United States and Japan, and protectionist pressure is mounting in Western Europe. The flexibility and aggressiveness of South Korean entrepreneurs, however, should enable Seoul to continue to expand its markets in the Third World. A record \$10 billion in construction contracts garnered in 1981 in the Middle East, Africa, and Southeast Asia will ensure strong demand for South Korean construction materials in these markets. [ ]

Investment spending will probably remain depressed through at least the first half of 1982. Inventories, which had been reduced to normal levels, are again increasing and the improvement in capacity utilization rates has been reversed. Businessmen have remained skeptical about the durability of the recovery, and the recent slump in exports has bolstered that feeling. According to a recent business survey, only 13 percent of the respondents are optimistic about business prospects over the next several months. High interest rates and weak sales have caused several large firms to go bankrupt over the past two years and cash flow problems are widespread. Even in areas where sales have been strong, such as shipbuilding, where South Korea boosted overseas orders by 62 percent in 1981 and ranked second only to Japan in winning new orders, profit margins appear to be extremely low. [ ]

The well-defined government business relationship that existed during the Pak years has yet to be reestablished under the Chun government, and a recently announced reorganization of the bureaucracy has further unsettled both domestic and foreign business confidence. Economic functions have been shifted from the once powerful Economic Planning Board to the more conservative Ministry of Finance, and the number of senior-level officials has been reduced. Businessmen are concerned about the short-term disarray caused by the reorganization and the possibility of a longer term deterioration in the country's economic policy making apparatus. [ ]

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One bright spot is consumer spending, which should provide a small boost to the economy. Despite government efforts to hold increases to 10 percent, wages will probably increase about 16 percent next year. This will allow real wages to move up slightly. In addition, the bumper rice crop will provide rural consumers with additional purchasing power [redacted]

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**Seoul's Reaction**

In an effort to restore the earlier vigor, the government has taken a number of steps since November to stimulate the economy. Interest rates have been reduced three times in the past two months, additional financial support has been provided to the business community, and the won has been allowed to depreciate more rapidly since early December. The Chun government has given no indication that it will abandon its anti-inflationary priority, however. Interest rates have been lowered by only about 3 percentage points, and Seoul remains committed to holding down the growth in the money supply and to seeking wage moderation from labor. [redacted]

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**Political Implications**

The downturn in economic activity coincides with rising student-government tensions and growing dissatisfaction with Chun among intellectuals and religious groups. The rapid economic expansion of the Pak years is the yardstick by which many South Koreans are evaluating the government, and their judgment of Chun will depend heavily on his ability to get the economy back on track. The uncharacteristic emphasis in the press on the gloomy economic prospects for 1982 probably reflects Seoul's efforts to lower these expectations. A slumping economy, nonetheless, could make the public more sympathetic to student criticism of the government. A downturn in the economy in mid-1979 contributed to the political instability in South Korea prior to Pak's assassination. Serious dissatisfaction could at the very least force the government to abandon its anti-inflationary policies.

[redacted]

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**East Asian  
Briefs**

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**China****From Guns to Butter?**

The Chinese are continuing to emphasize the manufacture of civilian goods in military factories. Civilian production is expected to account for almost 45 percent of the total 1981 output from military plants as compared to only 10 percent in 1979 and 20 percent in 1980. The most publicized products include bicycles, sewing machines, electric fans, cameras, and radios. Military plants are also turning out such industrial items as mining and chemical equipment, machine tools, earthmovers, and production-line equipment. Moreover, the Chinese claim that 80 percent of all military plants now produce some civilian goods. [REDACTED]

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With a smaller budget at its disposal, the military has elected to reduce the procurement of older model equipment and to emphasize the production of selected modern weapons systems. At the same time, expansion of the quantity and range of consumer goods produced by defense industries puts excess capacity to work and helps generate revenues needed for the defense industry. China's military factories also are helping to increase the availability of consumer goods and earn hard currency from exports. [REDACTED]

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**Restructuring the Military High Command**

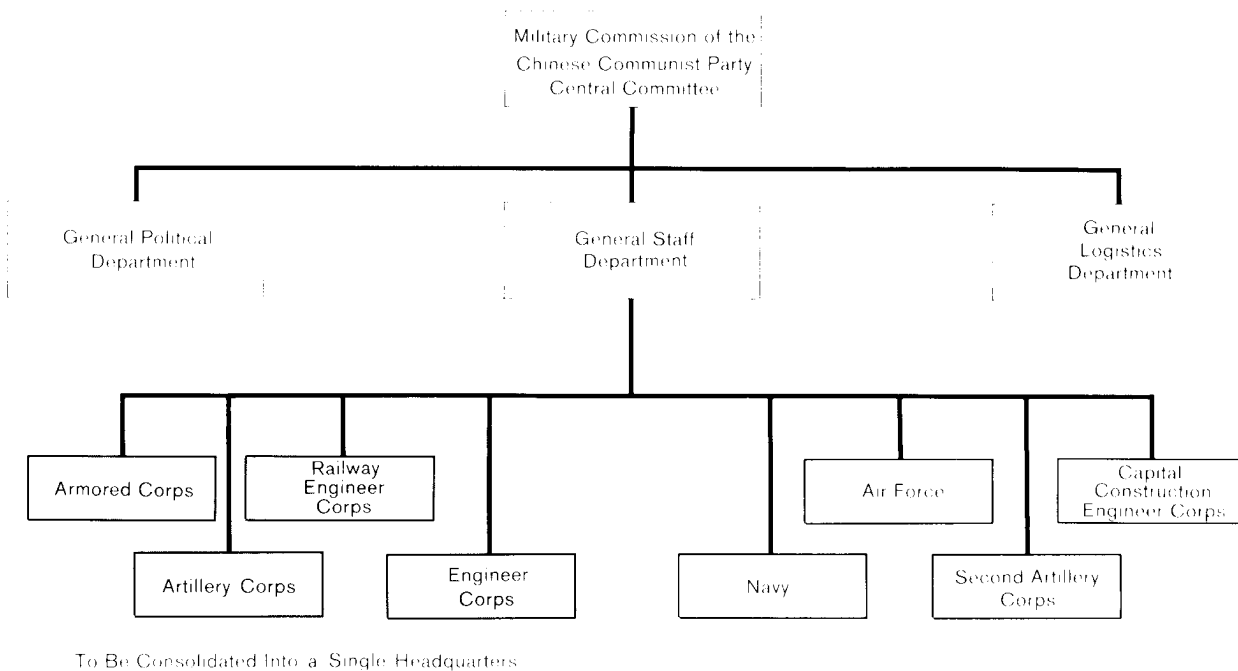
Vice-Premier Deng Xiaoping is planning to reorganize China's highest military command—the General Staff Department (GSD)—as the latest step in streamlining and modernizing the People's Liberation Army (PLA). The proposal would consolidate four separate ground force commands within the GSD: the Armored, Artillery, Engineer, and Railway Engineer Corps. The GSD serves both as the national headquarters for the ground forces and as the high command for all the military services. The reorganization would adopt the Western model of equal status for the ground, naval, air, and strategic missile forces as well as the capital construction engineers. Deng's plan for integrating the separate arms of the ground forces also could improve the military's ability to conduct combined-arms and joint-service operations. [REDACTED]

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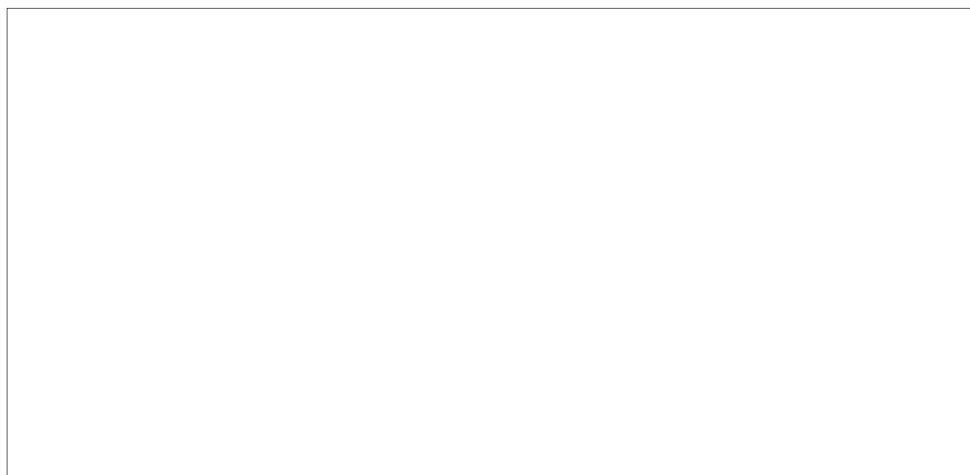
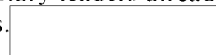
**China: Change in the PLA High Command**


To Be Consolidated Into a Single Headquarters



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Some senior PLA officers, however, fearing a loss of influence or position, strongly object to Deng's proposal. Many of these military leaders already are dissatisfied with some of his economic and social reforms.



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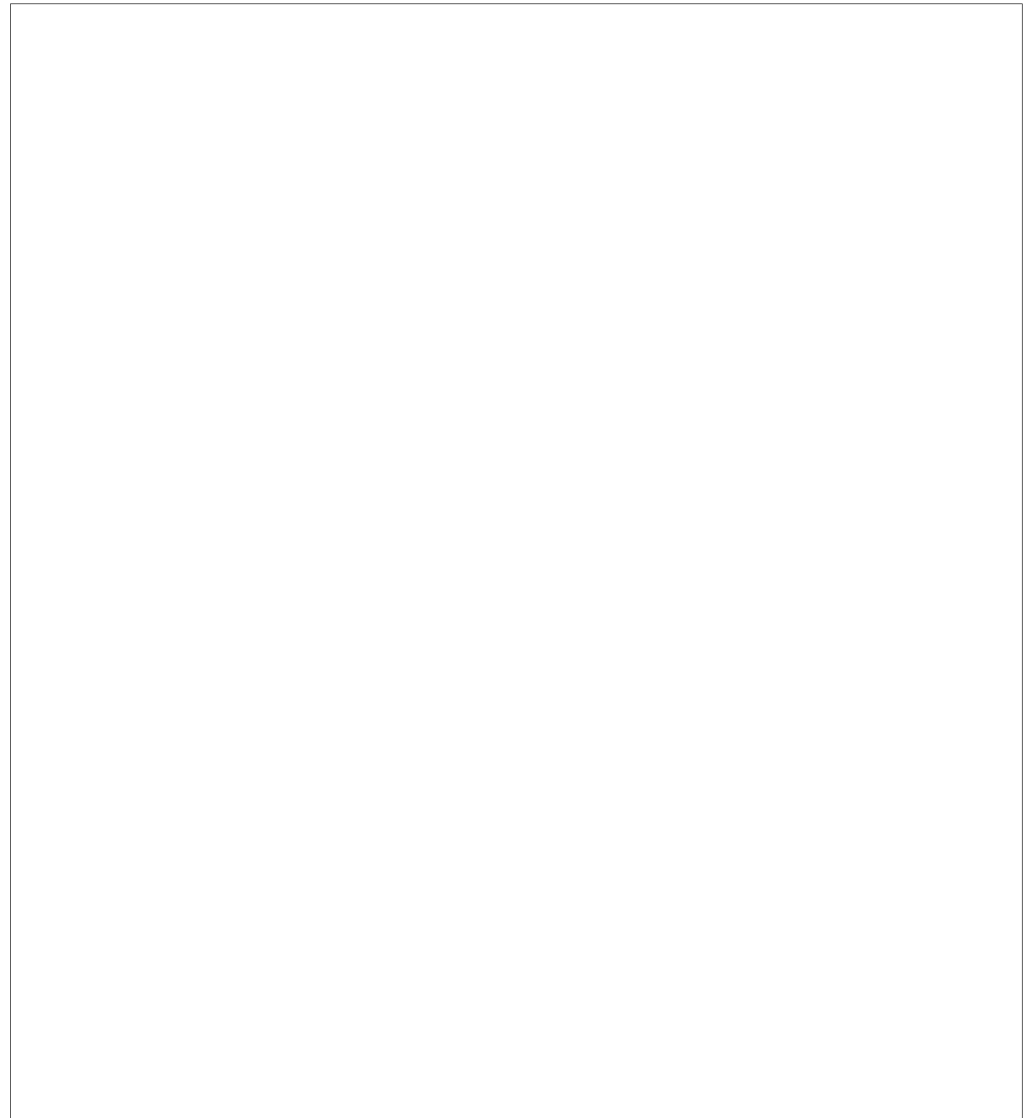
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**Taiwan Increasing Informal Representation**

Taiwan opened a "Free China Information Office" in Copenhagen in December, bringing the number of its offices in Western Europe to 12. Taiwan continues to make progress in building what it calls "substantive relations" with countries that recognize Beijing. These offices, staffed by foreign ministry personnel and funded by Taipei, take a variety of forms, depending on what the host government will permit. Besides information offices, Taiwan also maintains trade and cultural offices; in some countries, news or airline offices serve the same purpose.



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In addition to its 22 remaining embassies, Taiwan has 36 informal representations, including nine in East Asia, six in the Near East, and seven in Latin America, as well as those in Tokyo and Washington. Apart from providing trade and commercial assistance and issuing propaganda, some offices also perform consular functions, including the issuance of visas. Beijing, usually consulted by the host government before Taipei receives permission to open an office, has never objected, so long as the offices remain informal. [REDACTED]

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Ten West European nations have opened similar offices in Taipei, three of them during 1981. Switzerland reportedly plans to open its office early this year, leaving only Finland and Portugal with no offices whatever. Taiwan has only one embassy left in Europe, in the Holy See. [REDACTED]

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## Northeast Asia

### Japanese Outline Trade Surplus Policy

Tokyo's recently announced policy to promote imports will have only a marginal impact on Japan's expected huge trade surplus in 1982. The package includes:

- An acceleration of tariff cuts agreed to in the Tokyo Round.
- Subsidies for raw material stockpiling even though Japanese companies probably would have rebuilt inventories anyway.
- \$330 million in funds already in the budget for increased oil reserves.
- A maximum of \$500 million in foreign currency loans for emergency imports on the condition that the yen appreciates.
- A reported \$90 million could be available to purchase foreign grain to be used as food aid. [REDACTED]

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The plan also makes some vague promises for long-term solutions to the trade problem, such as improvements in import inspection procedures. Details of these proposals are expected in late January but will not include substantial changes in Japan's agricultural quotas. [REDACTED]

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### South Korea-Libyan Trade Grows

Exports of South Korean goods and services, including military equipment, dominate Seoul's growing relationship with Tripoli. This year, South Korea increased its sales in dollar terms to Libya more than to any country other than the United States, and Tripoli is now Seoul's seventh-largest export market. Sales in 1981, primarily textiles and construction materials, probably reached \$600 million, up from \$174 million in 1980. More important, South Korea won about \$3 billion in Libyan construction contracts in 1981 and has more than 10,000 workers there. [REDACTED]

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There is also a small but growing trade in military vehicles and uniforms, with some of the latter probably being transferred by Libya to foreign subversive groups. [REDACTED]

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Diplomatic ties, upgraded to the ambassadorial level in 1981, facilitate the growing economic relationship. Though Seoul is interested in using these ties to advance its diplomatic competition with the North, diverging political and ideological outlooks of the two countries make a more substantial relationship unlikely. [REDACTED]

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#### **South Korea Making Gains With the Nonaligned Movement**

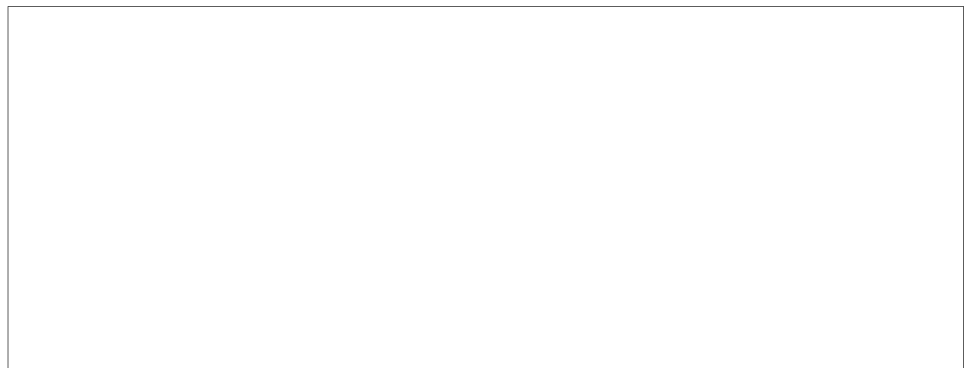
South Korea may gain a better hearing within the nonaligned movement (NAM) as a result of Iraq's chairmanship of the movement from 1982 to 1985. Baghdad invited Seoul, an increasingly important source of Iraq's military supplies, as an observer to a NAM-sponsored conference of labor ministers that it hosted in mid-December—the first time the South Koreans had attended a ministerial-level NAM meeting. As conference host, Iraq could invite a nonmember nation to this session as an observer, but North Korea—a full member since 1976—and its supporters would veto any formal attempt to make Seoul a permanent observer or member. Seoul will continue to court individual NAM members to further its economic interests and its diplomatic competition with P'yongyang. South Korea already has official ties with 64 of the 94 NAM members; P'yongyang has official relations with 72 members. [REDACTED]

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#### **South Korea Attempting To Improve Tank Force**

As part of an overall plan to meet the challenge of North Korea's superior armor strength, Seoul is augmenting its forward armor forces at the expense of its second-echelon reserves. Over the past several months, South Korea has deployed one tank battalion each to four frontline divisions north of Seoul. This redistribution will increase the capability of the ROK Army to meet localized breakthroughs, a threat that concerns Seoul because of North Korea's nearly three-to-one lead in tanks. The ROK Army's capability for neutralizing penetrations larger than battalion size will be diminished, however, because the only remaining sizable armor force in reserve is the Capital Mechanized Division, which cannot simultaneously cover the two most likely avenues of attack. [REDACTED]

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**Southeast Asia****Thailand Shuffles Cabinet Again**

The shuffle of 19 December gives Prime Minister Prem's coalition a slight majority in the National Assembly and will help him defeat future challenges from former Prime Minister Kriangsak's newly formed National Democracy Party. It is the third cabinet shuffle since Prem took office in 1980 and probably will not substantially increase the regime's effectiveness. [ ]

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Prem agreed to take the Social Action Party back into his government. The party, Thailand's largest, withdrew 10 months ago after being implicated in an oil purchase scandal. Nevertheless, other major parties in the Cabinet have retained most of their portfolios, with Social Action members taking over positions at the expense of nonpartisan technocrats and a few controversial figures. This politicization of the Cabinet has already led to increased infighting among competing coalition members and promises to draw their attention away from Thailand's pressing economic and social problems. [ ]

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**Thai-Lao Relations Beginning To Thaw**

In an effort to lessen Lao dependence on Vietnam, the Thai Government is considering opening a third trade crossing point along the Mekong River and is planning further commercial initiatives. These moves follow from the Lao Foreign Minister's visit to Bangkok in November. The two countries also agreed to set up provincial consultative bodies and to cooperate more closely on refugee matters. [ ]

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The Thai Army is also attempting to undermine Vietnamese control by supporting cross-border insurgent operations into Laos, although the potential remains high for serious military clashes that could abruptly reverse the warming trend in Thai-Lao relations. Hanoi appears willing to tolerate increased trade between its client and Thailand because it makes up for supply shortages the Vietnamese would be hard pressed to fill. [ ]

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**Relations Improving Between Malaysia and Singapore**

Prime Minister Mahathir's visit to Singapore in mid-December restored an amicability in relations that has eluded the two countries since their separation in 1965. He and Lee Kuan Yew resolved several bilateral irritants and agreed to try to settle several others. Even before this, Malaysia's permission for Singaporean Air Force overflights of Malaysian territory over the past year testified to a better working relationship. Malaysia's lingering wariness of its ethnic Chinese and more aggressive neighbor was reflected, however, in Mahathir's statement that Malaysia was still not ready to agree to joint military exercises on Malaysian soil. [ ]

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An apparent difference over supplying arms to non-Communist resistance forces in Kampuchea was downplayed by both Singaporean and Malaysian officials. They attribute Mahathir's statement against supplying arms to Malaysian reluctance to be as public about its intentions as Singapore. [ ]

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**. . . While Tensions Between Indonesia and Singapore Are on the Rise**

Indonesia's displeasure over Singapore's recent public initiative to keep a Kampuchean "loose coalition" going may result in a downturn in their bilateral relations, historically prickly in the best of times. Indonesia is miffed because Singapore did not request previous consultation before airing the proposal, especially since Jakarta regards Singapore as too inclined toward a confrontational approach toward Vietnam. Jakarta will express its pique by quietly torpedoing an embryonic plan for bilateral use of the strategic Natuna Island group, which straddles the South China Sea (see map on page 21). [REDACTED]

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Dialogue between senior military officials from both countries had gradually reached the point of active planning for joint military operations and sharing of facilities on the recently upgraded base. Some consideration had also been given to expanding cooperation to the Malaysians as well, but if Indonesia decides other ASEAN members are ignoring or sidestepping its views on Kampuchea it may keep all neighbors off the Natunas. [REDACTED]

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**New Indonesian Trade Policy Burdening Foreign Firms**

To avert a further worsening in the trade balance without slashing imports, Jakarta will require foreign companies awarded government contracts valued at \$790,000 or more to export an equivalent value of Indonesian goods. Such contracts have amounted to about \$4.5 billion annually during the past few years. [REDACTED]

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Trade Minister Prawiro recently announced that successful bidders on major government contracts will be given lists of Indonesian suppliers of processed rubber, plywood, other wood products, pepper, coffee, and other items currently hit by weak foreign demand, from which they can choose to meet the new export requirements. [REDACTED]

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Exemptions will be granted to foreign companies engaged in joint ventures with Indonesian partners, for contracts involving concessionary financing, and for local purchases. The new policy could give Japanese firms an advantage over US and European firms. The Japanese are partners in more joint ventures, and many Japanese firms also have corporate ties to the giant Japanese trading houses, which should make it easier for them to export Indonesian products. [REDACTED]

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**New Opposition Parties Formed in the Philippines**

In separate efforts that will hasten the promised normalization of Philippine politics, two new opposition parties were formed last week: the Social Democratic Party (SDP), led by a coalition of national assemblymen, and the Philippine Democratic Party (PDP), led by opponents with ties to the opposition in the United States. Both parties will seek accreditation in order to participate in forthcoming local elections slated to be held before July 1982. [REDACTED]

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The two new parties underscore longstanding divisions among opposition ranks and probably will do little to challenge Marcos's control at the local level. Many members of the opposition are probably hoping to use local elections to build a party structure and a grass-roots following that could reap dividends during the legislative elections scheduled for 1984. [REDACTED]

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For the moment Marcos is paying lipservice to the formation of a strong opposition, while clarifying the limits within which an opposition will be tolerated. Commenting on the formation of the new parties, Marcos—in a pointed reference to the PDP—said that the government would never sanction an opposition that preaches violence and would only accept a "real and legitimate" opposition. The question of party accreditation will be the next test of the President's willingness to tolerate dissent. [REDACTED]

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### **Soviets Stepping Up Imports of Philippine Coconut Products**

An agreement by Moscow in early December to buy \$54 million worth of Philippine coconut products during 1982 will temporarily solve Manila's problem of managing surplus coconut inventories in this important industry. Exports of coconut products in recent years have led Philippine export earnings and provide employment directly and indirectly for about a third of the labor force. The new deal with Moscow represents an increase of nearly 50 percent in Soviet purchases of Philippine coconut products over 1981 levels but does not match the \$74 million bought in 1980. And because the international market for edible oils remains weak, Manila's relief promises to be short-lived. [REDACTED]

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### **Australian Labor Group Endorses Uranium Exports**

The recent endorsement by the executive council of the Australian Council of Trade Unions (ACTU) could remove a major political constraint to the country's becoming a major uranium exporter. Australia has one-fifth of known world reserves. [REDACTED]

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The action reflects a growing feeling among Australians that the economic benefits of uranium mining outweigh the dangers of nuclear proliferation. Uranium exports remain an emotional issue, however, and the decision could be challenged and reversed by an ACTU conference in February. [REDACTED]

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In 1978 the ACTU had endorsed the mining and export of uranium if the government negotiated adequate safeguards agreements but reimposed its ban on shipments a year later on the grounds that this condition had not been met. Flouting of the ban by some unions involved in uranium production has permitted a trickle of exports in the meantime. [REDACTED]

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**Indonesia Slashing Domestic Fuel Subsidies**

In a surprise move seen as a political gamble, Jakarta is cutting fuel subsidies and raising domestic oil prices by an average of 60 percent. The World Bank and other aid donors have been pressuring Jakarta to cut subsidies for over a year, but observers had expected the Soeharto government to maintain artificially low prices until after the general elections on 4 May. Stagnating oil revenues and a sharply weakening balance of payments forced the move. Petroleum prices have been frozen since May 1980 at roughly one-third world levels and will cost Jakarta \$2.4 billion for the fiscal year ending March 1982, 10 to 12 percent of government budget outlays.

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## Calendar of Coming Events

### January 1982

#### 7 January

Third anniversary of the replacement of Pol Pot's regime by the Hanoi-backed People's Republic of Kampuchea.

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#### 8 January

US-Japan Security Consultative Committee meets for the first time since November 1978 to discuss bilateral defense cooperation.

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#### 11-14 January

US-Japan civil aviation talks resume in Tokyo.

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#### mid-January

US-Japan Facilitative Assistance Study Group holds first formal meeting to begin discussions of Japanese support for United States in event of war in Korea.

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#### 15-17 January

US-Japan-EC-Canada hold trade talks in Florida.

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#### 20 January

Japanese Diet reconvenes; deliberations on 1982 budget begin.

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#### 20-21 January

Japan-USSR talks between senior working-level Foreign Ministry officials scheduled to be held for the first time since invasion of Afghanistan.

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#### 28-29 January

Fifth ASEAN-Japan Forum meets in Jakarta.

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#### Late January

High-level Japan-EC talks in Tokyo.

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